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Dec. 15, 1997

Cynthia L. Johnson  
Director, Cash Management  
Policy and Planning Division  
Financial Management Service  
401 14th Street SW, Room 420  
Washington, DC 20227

Dear Ms. Johnson,

The "comments" which follow have been prepared on behalf of the "Committee on the Unbanked", of the Online Banking Association of Corte Madera, CA. (The Executive Director of OBA is James Shelton, and his telephone number is 415-924-1051.) I serve as Chairman of the OBA's Unbanked committee. We have met on two occasions to discuss EFT '99, and I am pleased to submit this document on their behalf.

**Waiver Policy:**

While the Committee supports the obvious need for waivers, individual members have expressed concern about the dangers of too liberal a policy. Specifically, there is a feeling that some consumer organizations may encourage members to request waivers through their organizations - providing the application for the unbanked as a service. The ability to file such a waiver by the unbanked claiming free check cashing at supermarkets (without identification of the store and location and without fear of being challenged) would simplify such a waiver filing process for organizations with large consumer constituencies.

My committee suggests that some constraints be placed on waiver filing procedures when done by a third party, and when offered en masse to a constituency.

**Bidding Procedure Policy:**

Timing is of utmost importance on the process of bidder selection, as you are no doubt aware. Banks in particular are slow to move "outside the envelope" and are likely to take their time in approaching the unbanked consumer marketplace. Membership of our committee includes several banking industry consultants who are likely to become involved as advisors to potential bidders, and will want to convince their clients on the need for a "constraint free" and "open" marketplace, which means a very limited role for government agencies, e.g. "privatization" of the approach to the unbanked. These consultants are convinced that non-bank organizations such as data processors, card issuers, telecommunications companies and others will be among the larger bidders, and that there will be significant resources behind their bids. These bidders will team up with

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banking organizations which will qualify them to participate in the bidding process. Smaller banks in particular will want (and need) sufficient time to approach the unbanked in their market sector before the successful bidders are “unleashed” to pursue same.

The Committee discussed the following scenarios re the bidding process:

1. A bidder-group could be more interested in gaining a foothold in a very large new consumer niche (the 10 million unbanked) for future market development, than in immediately profiting from Demand Deposit Two (DD2) type service offerings. In this approach a bidder could forego government subsidy and consumer fees in return for protected market opportunities so that it could have the time to build the new market potential.
2. A bidder-group including a major card issuer and an ATM network could approach the USPS to serve as its partner for the branch office distribution of benefits on a nationwide basis.
3. A bidder-group largely comprised of a nationwide non-bank financial services industry consortium could propose to lead its efforts through representation of its membership component of the “unbanked”.

In each of the above scenarios there could be “red flags” for those banks trying to gain market share among the “unbanked” if forced to compete with the winning bidder organizations that receive any form of market protection, including contracted time frames for market penetration.

#### **The Small Bank Perspective:**

The Online Banking Association membership is open to banks of all sizes and degrees of online sophistication, which includes the community bank constituency. The scenarios above have led us to consider the “red flags” from the perspective of that category of banks and other like-sized financial service organizations. A profile of their attitudes on the unbanked and on EFT ‘99 might go as follows:

1. We’re too small to offer DD2 services to the unbanked in our marketplace.
2. We will have to outsource this opportunity to a processor, card issuer, or other vendors that we do business with. Hopefully they will provide a service to us.
3. We’re anxious to see who wins the bidding process and hope that they will either help our marketing efforts, or at least not compete in our marketplace.
4. We may have to join an alliance to go after this marketplace, perhaps even join up with one of the winners of the bidding process.

#### **The Large Bank Perspective:**

1. We have an EFT ‘99 program and plan to offer our version of DD2.

2. We have to be careful not to lose existing/profitable customers to DD2.
3. We don't want a competitive bank or other organization authorized as a bidder for the unbanked in our marketplace.
4. We don't intend to lose money on the DD2 accounts, we must at least break even.
5. If challenged by a bidder group, we may have to form an alliance in order to protect our marketplace.
6. The government should subsidize the transition to unbanked, even if it is in the form of "soft money" for promotion, education, and training programs.

#### **The Challenge To FMS.**

The biggest challenge to the FMS may be in the bidding process, in the complex effort of satisfying all the parties involved. From the government perspective it is likely that you do not want to subsidize EFT '99. From the perspective of the banks, they will want a flexibility in setting fees. The banks will also want to be protected against non-bank incursions into their markets. The bidders will want open markets and pricing flexibility if they can get it, along with a minimum of regulatory restrictions.

These are just some of the challenges that FMS and Treasury will face in the next steps of this very important program. The Online Banking Association plans to keep involved in support of your efforts and is available to work with you in the roll-out.

Sincerely,



Dale L. Reistad  
Chairman

cc - James Shelton